

COVID-19: IMPACT ON FUNDERS AND INVESTORS

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Since its emergence in January 2020, COVID-19 has had a significant and far-reaching impact on all aspects of the construction and property industry.

These impacts range from temporary suspension of works, reduced productivity and in the worst cases, the permanent shut-down of sites. Reduced cash flow and financial instability of firms through to closure of material suppliers and the delayed receipt of approvals have always been risks within the development and construction process but, as a result of COVID-19, their rate of occurrence and effect could be far more onerous and wider reaching.

Whilst the medium to long term impact on the construction and property industry has not yet been fully understood, the more immediate economic impact of the pandemic on commercial occupiers, developers and investors is fuelled by a general feeling of economic uncertainty across the UK.

The sectors more likely to see a reduction in overall demand are office, hotels & leisure, sport and retail. In contrast however, other sectors and sub-sectors including datacentres, online retail, industrial & logistics and budget food retail are expected to benefit from increased demand. This shift in demand is expected to be paralleled by a re-focussing of development and investment targets by developers and development financiers to non-traditional sectors and asset types.

The majority of investors, banks, bridging companies, pension funds, statutory bodies and local authorities are now understandably seeking to minimise their exposure to financial risk. They may be limiting their investment and funding portfolios to developments that are deemed to be low risk and to developers that can evidence the diligent management of inherent development and project risks.

ROBUST DUE DILIGENCE IS VITAL

The reduced appetite of development financiers is likely to increase the demand for those schemes deemed as 'low risk' and may in-turn yield a reduction in return rates in favour of developers.

As a result, it is more critical than ever for developers to evidence the diligent planning and management of a project in order to secure the funding that is so critical to the progression of their developments and core business.

To satisfy funding prerequisites, developers are likely to find themselves under increased pressure to evidence robust market due diligence in addition to various other development particulars. This includes well advanced and appropriate financial management, programme management, procurement strategies, contractual arrangements, design processes, statutory approval processes and third-party guarantees, achieving best value and minimising financial, temporal and contractual risk.

Exact requirements will vary depending on the project specifics, presenting a challenge to developers to ensure all key considerations are made and managed appropriately.

ASSESSING THE RISKS ON EXISTING PROJECTS

Aside from a reluctance to progress new funding opportunities, development financiers are also likely to be experiencing some level of uncertainty in the context of existing projects.

This may have arisen due to a number of factors such as:

- the stalled progression of the works
- the financial instability of the contractor, sub-contractors, developer and professional consultants and their ability to deliver contractual obligations
- the potential for non-budgeted cost increase
- the potential for contractual claims impacting cost and programme
- the non-adherence to funding agreement requirements
- the late provision of contracts and warranty
- Health & Safety concerns
- the potential withdrawal of prospective tenants from agreements for lease.

To mitigate or manage residual or new funding risks and to ultimately reverse or improve funder uncertainty, it is prudent for a project 'health check' to be undertaken in order for risks to be identified and appropriate mitigation strategies determined for implementation.



RLB UK is accredited by the Financial Service Quality Standard (FSQS) offering project services including fund monitoring, design & specification, project health & safety, project management and cost consultancy services to all financial sector members.

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CONSIDERATIONS FOR DEVELOPERS

To ensure all aspects of a development are well considered whilst providing the best chance of securing development funding, the following development strategies should be considered. These include:

- Pre-construction information reviews and management
- Procurement strategy reviews and management
- Assembly of the appropriate professional consultant team
- Design process and management
- Statutory requirements identification and management
- Contractual reviews and advice
- Forensic programme reviews
- Insurance requirements
- Development budgets and cash flows
- Sustainability objectives and accreditation management
- Third party warranties
- Health & Safety requirements and management.

CONSIDERATIONS FOR FUNDERS AND INVESTORS

To establish the viability of the investment and to determine appropriate solutions to reduce funding risk, a health check of a development, focusing on key project specific matters should be considered. These include:

- Financial review ensuring the exact current and forecast financial position is captured
- Contractual review providing advice on specific contractual provisions and any increased exposure in consideration of current circumstances
- Review of the scope of contract documents received as appropriate to the stage of the project, identifying gaps and areas of funder exposure
- Financial health check of project parties including contractors, developers, consultants and tenants
- Review of agreements for lease to advise on any increased exposure in consideration of current circumstances
- Inspections of the site works, advising on the accuracy of current valuations
- Review of any materials off site documentation to advise on the protection of funder interests
- Health & Safety audit ensuring your site adheres to the Construction Leadership Council (CLC) and government guidance
- Review of programmes and/or acceleration programmes to advise on feasibility
- Forensic review of statutory consents and approvals, advising on non-compliance issues or areas of risk
- Project insurances review advising on insurance policy terms, sums insured and advising on deficient areas
- Review of the funding agreement, advising on areas of non-compliance and/or increased risk.

Whilst we may not know the full impact of COVID-19 on existing and future schemes, there is much we can do to assess and mitigate risks for projects and to keep developments progressing. If you would like to find out more or have any questions, please get in touch.



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